BALTIMORE COUNTY

ECONOMIC INDICATORS AND REVENUE REPORT

2000 Fourth Quarter
October 1 to December 31, 2000

Office of the County Auditor
April 9, 2001

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April 9, 2001

Fourth Quarter 2000 *Economic Indicators and Revenue Report*

Honorable Members of the County Council
Honorable C.A. Dutch Ruppersberger, III, County Executive
Baltimore County, Maryland

Gentlemen:

Attached is the *Economic Indicators and Revenue Report* for the period October 1 to December 31, 2000.

The County's economy offered a solid but mixed reading in the final quarter of 2000. Year-over-year fourth quarter comparisons show County resident employment rose slightly, but the actual unemployment rate also rose. County construction markets fell below prior year levels during the fourth quarter, although the number of existing and pending home sales reached record fourth quarter levels. Interest rates showed a mixed pattern, with some flat and others falling from the third quarter of 2000 but since the first of the year, interest rates across the board have been sharply declining. For FY 2001, County revenue growth will remain strong; however, a weak U.S. economic outlook combined with a slightly more positive State outlook, suggests that the County's economy and revenue growth in FY 2002 will be below recent years.

FY 2001 General Fund revenues totaled $793.9 million through January 2001, up $47.3 million or 6.3% over FY 2000. Due to a change in the timing of income tax collections, however, revenue growth might not be as strong as it first appears. Nevertheless, revenue growth remains strong through January; property tax revenues are up 2.7%, while income tax and "all other" revenues were ahead by 18.6% and 8.9%, respectively, from January 2000. For FY 2001, total revenues are projected to increase by 3.7% to $1,177.1 million, with a year-end surplus of $90.2 million, including $36.6 million in the Revenue Stabilization Reserve Account. FY 2002 revenues are forecast to advance by 1.4% to $1,193.0 million.

Should you have any questions or require additional information, please do not hesitate to contact me.

Respectfully Submitted,

Brian J. Rowe, County Auditor

Paul R. Maihan

Paul R. Maihan, Senior Fiscal Analyst

cc: Thomas J. Peddicord
Mike Funk
John Gaburick

BALTIMORE COUNTY
ECONOMIC INDICATORS AND GENERAL FUND REVENUE REPORT

2000 FOURTH QUARTER

TABLE OF CONTENTS

Page

SUMMARY OF ECONOMIC INDICATORS AND GENERAL FUND REVENUES 1

PART 1: ECONOMIC INDICATORS

EMPLOYMENT

- Employment 2
- Unemployment 3

HOUSING

- Existing-Home Sales and Other Residential Activity 4
- Pending Existing-Home Sales 5
- New Construction (Building Permit Activity) 6

INTEREST RATES 8

INFLATION 10

CONSUMER SPENDING 11

PART 2: REVENUES

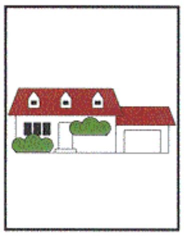
FISCAL YEAR 2002 REVENUES 13

FISCAL YEAR 2001 REVENUES (THROUGH JANUARY) 14

SUMMARY OF ECONOMIC INDICATORS AND GENERAL FUND REVENUES

Baltimore County economic indicators for the fourth quarter of 2000 offered a mixed reading on the current strength and future direction of the County's economy. County resident employment was up slightly from a year earlier; however, the unemployment rate was also up. The County's resale residential housing market reached record fourth quarter levels but new construction markets were below year earlier levels. The County's recent economic performance, coupled with a slow, nonrecessionary growth outlook for the U.S. and Maryland economies, indicates tepid County revenue growth in FY 2001 and 2002.

Employment among County residents increased by 4,859 persons, or by 0.9%, from 1999:Q4 to 2000:Q4, while the County **labor force** expanded by 8,090 persons, or by 1.7%. With the labor force expanding at a quicker pace than resident employment, the number of **unemployed** and the **unemployment rate** rose in the County over the 1999:Q4 to 2000:Q4 period (pages 2-3).



Housing and other real estate activity remains relatively strong. **Settlements** on existing homes were at record fourth quarter levels in 2000:Q4 while **pending sales** were also up over the 1999:Q3 period. For the third quarter of 2000, the value of new building activity in Baltimore County fell by 1.2% compared with a year earlier, with new **residential** building permit activity up 2.0%, **non-residential** building permit activity down 65.6% due to the lack of large new construction projects, and additions, alterations, and repair activity up 18.1% (pages 4-7).

Interest rates showed a mixed pattern in the fourth quarter, with some interest rates flat and others falling from the third quarter of 2000. The Federal Reserve, in a surprise move, lowered short-term interest rates by 50 basis points on January 3, 2001 and by another 50 basis points on January 31 and March 20. The U.S. Central Bank also indicated that additional interest rate cuts might be forthcoming (pages 8-9).

Inflation is currently running ahead of previous years' comparisons and at the year-over-year highs recorded last spring. **Regional** and **U.S. inflation** was 3.3% and 3.7%, respectively, as of January 2001 (page 10). Aggregate **U.S. economic growth** expanded at an annual rate of only 1.0% in the fourth quarter of 2000 -- well below the pace of the previous few quarters (page 11).

Consumer spending continued to support the economic expansion reflecting strong gains in personal income and a rebounding level of consumer confidence. **Consumer Confidence** has been tumbling for months but staged a significant rebound in March, erasing the combined declines recorded in January and February 2001. Overall it appears that confidence, while well below the record levels recorded last summer, remains strong enough to support an expanding economy (page 11).

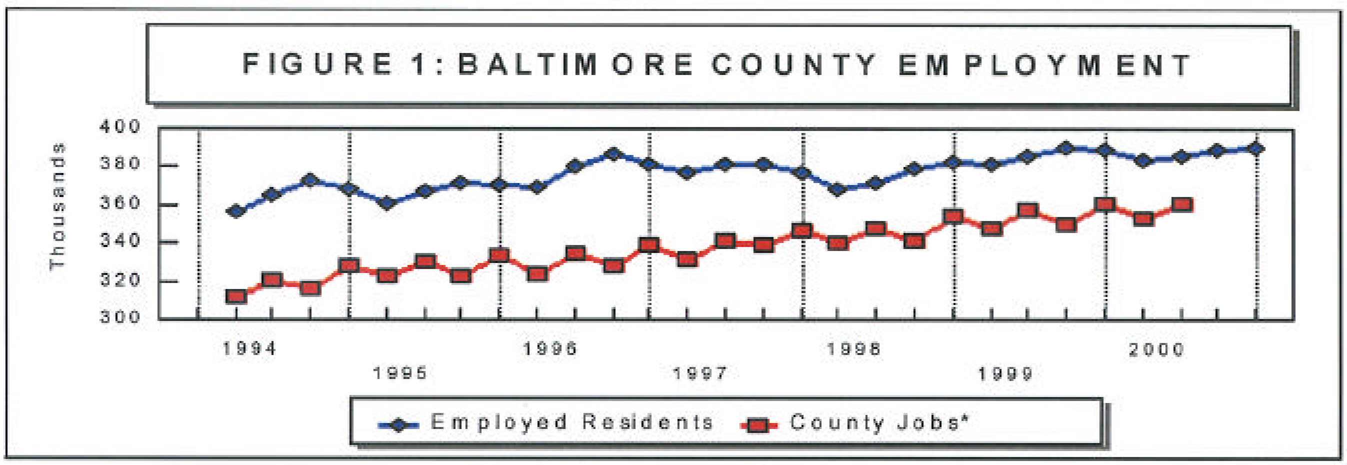
FY 2002 revenues are forecast to advance by 1.4% to $1,193.0 million. **FY 2001 revenues through January** totaled $793.9 million, an increase of $47.3 million or 6.3% over the comparable 2000 period. While FY 2001 year-to-date revenues are well ahead of FY 2000, the increase might not be as strong as it appears; however, revenue growth is still solid. For FY 2001, total revenues are projected to increase by 3.7% to $1,177.1 million, with a year-end surplus of $90.2 million, including $36.6 million in the Revenue Stabilization Reserve Account (pages 13-15).

PART I

ECONOMIC INDICATORS

ECONOMIC INDICATORS

Employment growth rates slowed in 2000:Q4 for both County residents and County employers -- the former measuring the number of County residents employed, and the latter measuring the number of jobs supplied by County employers. From 1999:Q4 to 2000:Q4, **County resident employment** increased by 1.3% or 4,859 persons. This rate of increase is well below the 11,000 plus County residents added to payrolls in the year earlier period. Regardless, County resident employment was at record levels in 2000:Q4, with the positive resident employment performance reflecting an economy that continues to expand, although at a pace well below last year. Despite the increase in employment, the County's unemployment rate actually rose from 1999:Q4 to 2000:Q4 as the County's labor force expanded at a quicker pace than employment. **County jobs** over the 1999:Q2 to 2000:Q2 period rose by 1.1% or 3,816 jobs (Figure 1).



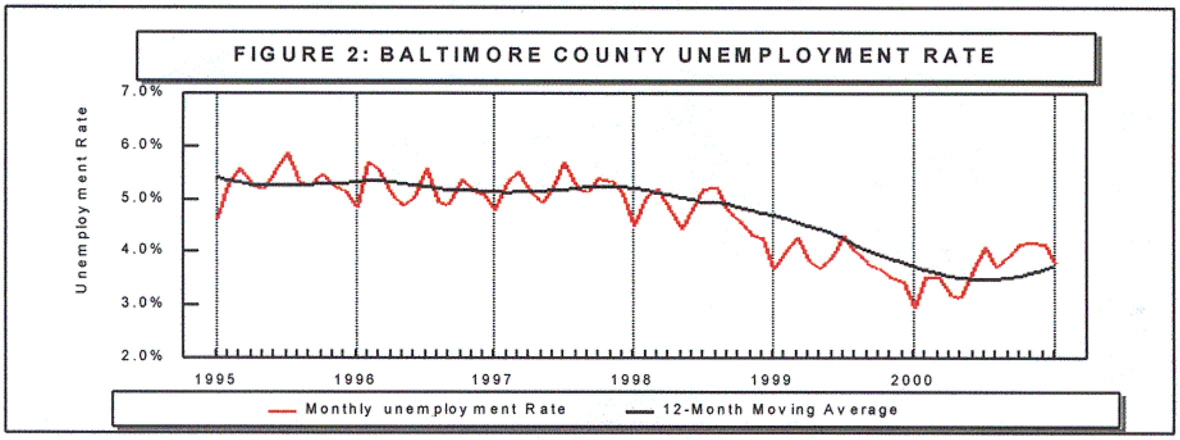
* County jobs data lags resident employment data by several quarters.

Over the 1999:Q4 to 2000:Q4 period, the number of Marylanders with jobs increased by 1.6%, slightly ahead of the growth rate posted by the County. For 2000 as a whole, State resident employment increased by 2.6%, while County resident employment advanced by 2.1%. The number of jobs in Maryland increased by 2.5% over the 1999:Q2 to 2000:Q2 period.

The County's total resident employment during 2000:Q4 averaged 392,478 persons -- marginally above the previous years' fourth quarter reading. Despite the year-over-year employment advance, the number of **unemployed** County residents rose by 3,231 persons, or by 24.4%, over the 1999:Q4 to 2000:Q4 period. However, over the last two years the number of County residents employed rose by over 16,000, while the number of unemployed County residents was virtually flat. In 2000:Q4, only 16,462 County residents, out of a labor force of 407,286, remain unemployed. The recent increase in the number of County residents counted as unemployed might reflect, to some extent, the strong growth in the County's labor force over the 1999:Q4 to 2000:Q4 period. Over that period, the labor force increased by 8,090 workers, an increase of 2.0%. This is in sharp contrast to the late 1990's when for several years data were indicating that the County's labor force was contracting or showing little growth.

Baltimore County's **unemployment** rate averaged 4.0% in 2000:Q4 -- a sharp increase from the 3.3% in 1999:Q4. However, the 4.0% 2000:Q4 County unemployment rate was down from the 4.2% reading in 1998:Q4 and well below the 4.9% in 1997:Q4 (Figure 2). The slight decrease in the County's unemployment rate over the last two years reflects the addition of 16,156 employed residents over the 1998:Q4 to 2000:Q4 period, while the labor force increased at a slightly slower pace of 16,046 persons.

The recent turnaround in the County's labor force growth is encouraging. New additions to the labor force imply the potential to add residents to payrolls yielding higher income tax collections. Even though the County's unemployment rate increased by nearly a full percentage point over the 1999:Q4 to 2000:Q4 period, the current rate is relatively low by historical standards. Moreover, there is a "natural rate of unemployment" thought to be around 3-4% of the labor force. This natural rate means that there will always be individuals counted as unemployed due to any number of factors including labor force transition, seasonal influences, new labor force entrants, etc. Thus, even with the unemployment rate up, County employment growth continues at a respectable pace.

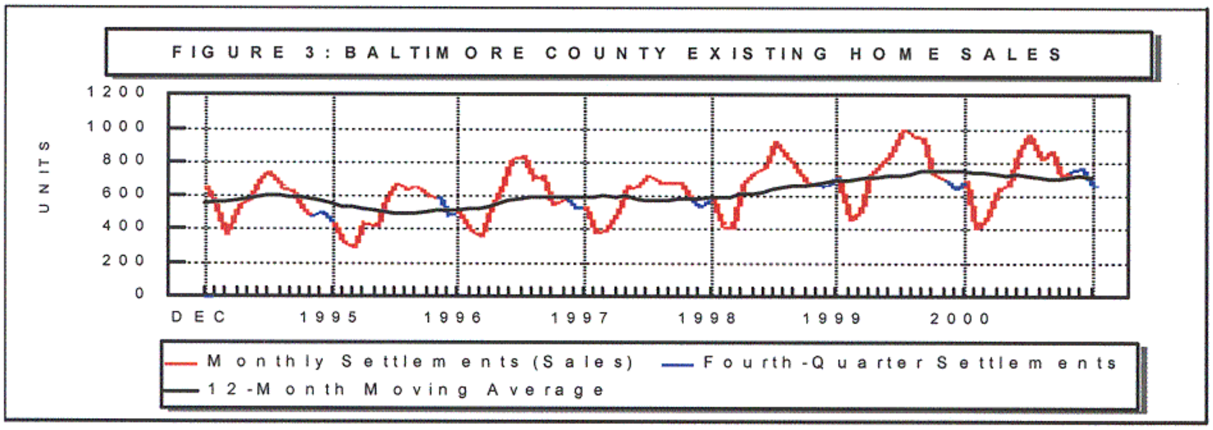


Historically, the County's unemployment rate has generally been a little higher than the State's and this trend continued in the fourth quarter. In 2000:Q4, the State's unemployment rate averaged 3.5% compared to the County's 4.0%. In December 2000, the State and County recorded unemployment rates of 3.3% and 3.8%, respectively, with the State and County up by 0.5 to 0.8 percentage points, respectively, from December 1999. For comparison, the current (January) U.S. unemployment rate was 4.2% -- still only a little above the 30+year low rate of 3.9%.

December 2000 unemployment rates varied considerably throughout Maryland with Baltimore County ranking 15th Statewide out of Maryland's 24 jurisdictions (including Baltimore City). Statewide unemployment rates varied from below 2% in Montgomery, Howard, Frederick and Carroll counties, to above 6% in Worcester, Garrett, Allegany, Cecil, Dorchester and Somerset counties and Baltimore City. Garrett and Worcester had the highest unemployment rates at 9.3% and 16.4%, respectively.

Within the Baltimore Metropolitan Area (BMA), the County's December unemployment rate of 3.8% ranked second highest and for the first time in recent memory was above the BMA December average of 3.7%, an average that is strongly influenced by Baltimore City. If the City's employment data were excluded, the December 2000 BMA unemployment rate would have been only 2.8%. Thus, while Baltimore County's labor markets seem to be performing reasonably well, after excluding the City's data, it lags well behind the regional employment performance.

Housing and other real estate activity continued to propel the Maryland and County economies in the final periods of 2000. Despite all of the media talk of the housing slowdown in late 2000**, existing home** sales in the County reached a fourth quarter record of 2,172 units, while for 2000 as a whole, existing home sales totaled 8,566 units, on par with the 1998/1999 average and only 4.4% below the record set in 1999. Also in the area of residential housing, in 2000:Q3 the number of new single family residential building permits slipped by 4.8% but the value of those permits rose slightly (multi-family permit numbers and values fell sharply). Additions, alterations and repairs to the County's residential housing stock showed a solid 11.0% gain in 2000:Q3 over the comparable 1999 period.

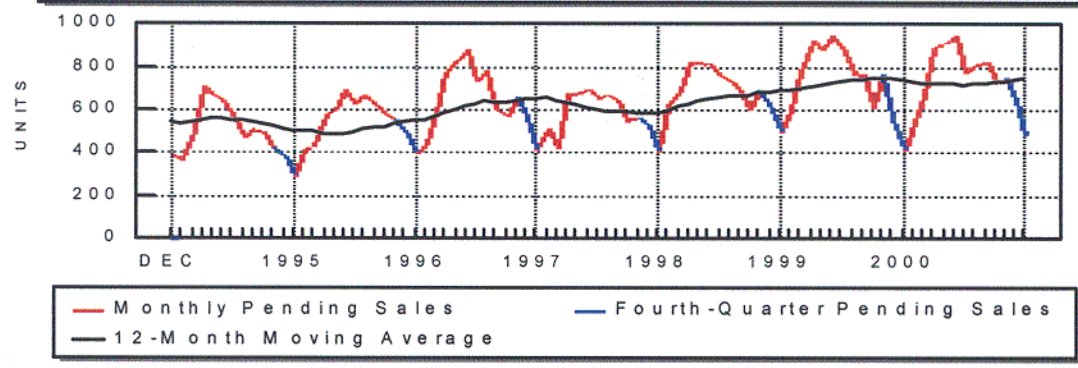


County existing home sales in 2000 fell below comparable 1999 sales in eight of the twelve months, but in the later part of 2000 sale comparisons began to favor 2000. In 2000:Q4, County existing home sales reached record fourth quarter levels and were 7.3% and 5.7% above the 1999:Q4 and 1998:Q4 (the previous record) periods, respectively. Increasing activity in existing home sales in the later part of 2000 reflect declining mortgage interest rates. The 30-year conventional mortgage rate in 2000:Q4 averaged 7.6%, down by 40 basis points from the 2000:Q3 period and 20 basis points from 1999:Q4. With mortgage interest rates in 2000:Q4 well off their 2000 highs, the housing market responded favorably, despite an economic slowdown and a battered stock market that reduced consumer confidence and wealth. Perhaps holding County existing home sales down a bit was the lack of homes to sell. The December 2000 inventory of homes for sale in the County was 34% below the 1997-99 average.

	Existing Home Sales		30-Yr. Conventional Mortgage Rate	
	Annual	Fourth Quarter	Annual	Fourth Qtr. Avg.
1993	6,632	1,905	7.3	7.1
1994	6,632	1,405	8.4	9.1
1995	6,185	1,581	8.0	7.4
1996	7,144	1,644	7.8	7.7
1997	7,040	1,709	7.6	7.2
1998	8,291	2,055	6.9	6.8
1999	8,963	2,024	7.4	7.8
2000	8,566	2,172	8.1	7.6

Pending existing home sales in the fourth quarter of 2000 were up by 7.5% over the comparable 1999 period and well ahead of the fourth quarter 1997-99 average. The increase in pending sales reflects declining interest rates and pent-up demand from earlier this year when higher mortgage interest rates were adding considerably to the cost of housing. In December 2000, the 30-year conventional mortgage rate averaged 7.4% -- its lowest reading for the year and 110 basis points below the 2000 peak rate of 8.5% set in May. The 110 basis points drop from the 2000 peak subtracted $79 or 7.8% from the principal and interest payment for the average priced Baltimore County home, financed with a 30-year conventional mortgage rate and a 10% down payment.

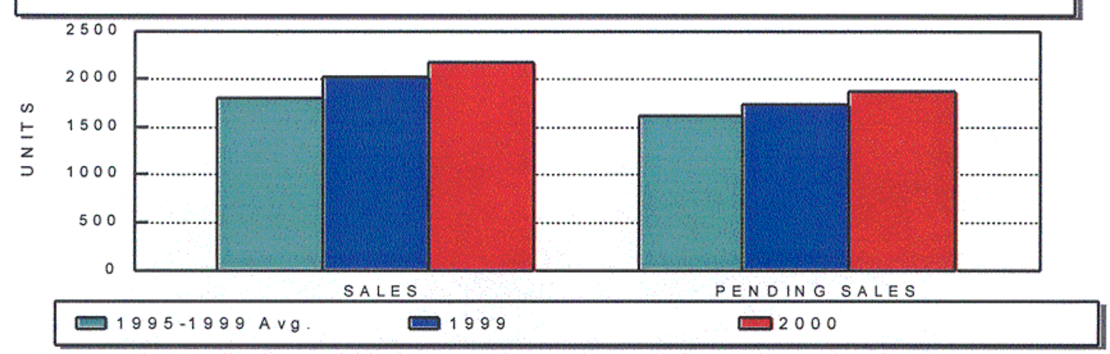
FIGURE 4: BALTIMORE COUNTY PENDING EXISTING HOME SALES



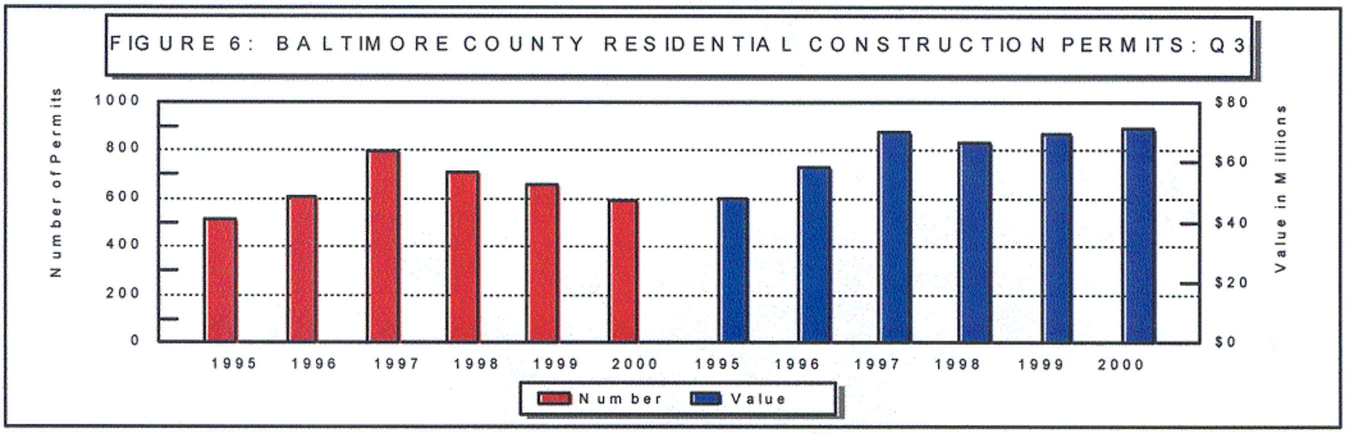
From December 1999 to December 2000, County existing home prices rose by 1.6% to $150,100. Over the same period, the 30-year conventional mortgage rate declined by 50 basis points to 7.4%. Thus, the monthly principal and interest payment for the average priced County home, financed with a 30-year fixed rate mortgage, and a 10% down payment, decreased by $31 or by 3.2% over the last year. With the 30-year conventional mortgage rate averaging 7.0% in January 2001 (the lowest since March 1999) County existing home sales should continue to do well, assuming an adequate inventory remains available.

Figure 5 shows a longer term perspective of the current strength of the Baltimore County residential housing market. 2000:Q4 existing home sales are up 7.3% over the corresponding 1999 period, and up over 20% from the 1995-99 fourth quarter average. The County's overall housing market should remain relatively firm in 2001 reflecting sharply lower mortgage rates and strong pending sales. However, the record low inventory of homes for sale might limit the ability of 2001 existing homes sales in the County to match the strong 2000 pace.

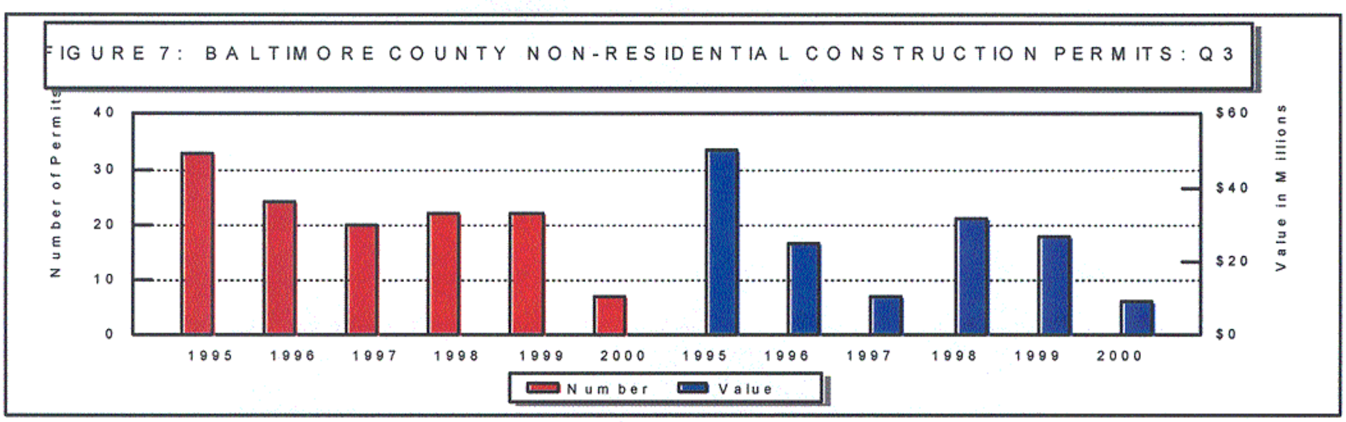
FIGURE 5: BALTIMORE COUNTY HOME SALES: Q4



Building activity in Baltimore County fell by 1.2% or $2.1 million from the comparable period in 1999:Q3; however, changes in the components of building activity varied widely. The value of new residential construction was up modestly (2.0%), new non-residential construction again plummeted (-65.6%), while additions, alterations and repairs showed a solid increase (+18.1%). Figure 6 shows the number and value of County **residential building permits** in the third quarter period from 1995-2000. In 2000:Q3, the **total number** of new residential building permits issued in the County fell by 10.3% with multi-family unit permits down by nearly half (44.6%) and single-family unit permits dropping by 4.8%. While new residential building permits were down across the board, the combined **value** of residential building permits in 2000:Q3 was up by $1.4 million or 2.0% from 1999:Q3. Each new single-family home building permit issued in the County in 2000:Q3 averaged $128,200, up by $13,400 or nearly 12%, over the 1999:Q3 period. Thus, the County seems to be following the national trend where the price of new single family homes is rising well above the inflation rate, mostly due to greater floor space and more amenities in new homes.



New non-residential building activity (commercial and/or industrial, private and/or public) provided a strong plus to the County's economy in 1999, but has been weak thus far in 2000. From January to October 2000, non-residential building activity was down by nearly two thirds from the 1999 level. For the 2000:Q3 period, non-residential building activity fell dramatically (Figure 7). This construction category, however, is dependent upon specific projects that makes this economic data set volatile. During the 2000 July-September period, only seven new non-residential permits were issued, for a total value of $9.2 million, compared to 22 permits for $26.7 million for the same period in 1999. Speculation on the reasons for the slowdown might include a general construction slowdown due to overcapacity, the slowing general economy and/or higher interest rates. A few new non-residential projects in 2000:Q3 included: a $6.5 million warehouse in Windlass, a $1.0 million office building in Reisterstown-Owings Mill and in Lochearn, and a $0.6 million Community Center in Overlea.

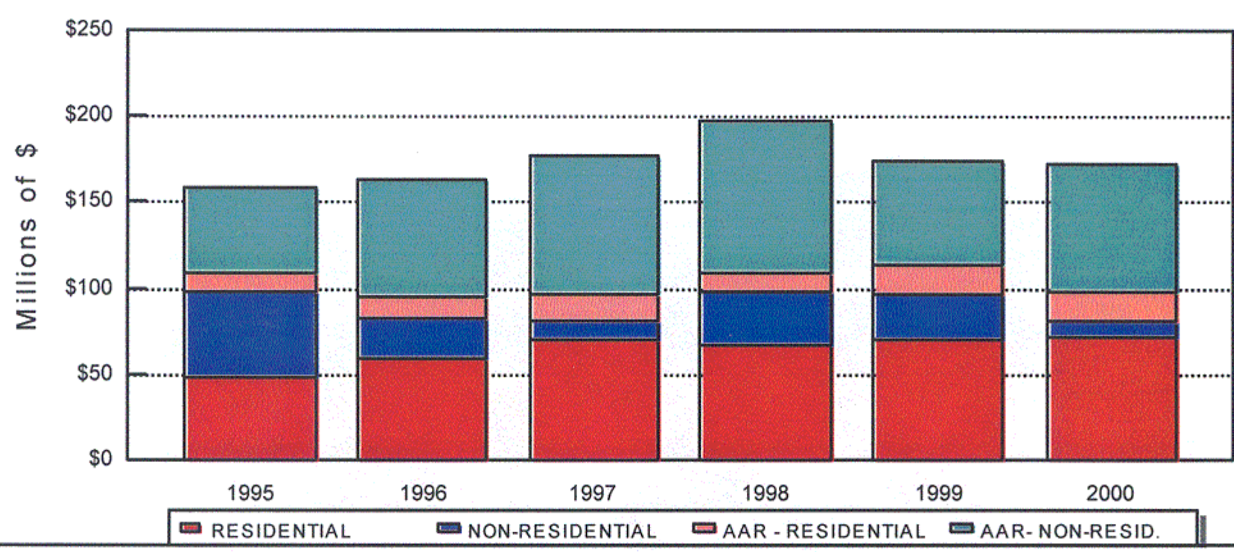


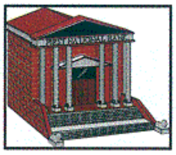
Additions, alterations, and repairs (AAR) are a key component in overall construction permit activity, and like new non-residential activity can be a volatile series. Overall, the 2000:Q3 aggregate AAR activity of $92.1 million was 18.1% above the comparable 1999 period but 7.3% below the comparable 1998 period. AAR activity accounted for nearly 48% of the total value of new construction permits in the County in the third quarter of 2000 -- equal to the third quarter AAR average over the 1997-1999 period. The $92.1 million in 2000:Q3 AAR activity consisted of $18.1 million in residential and $74.0 million in non-residential permits. This category of construction should remain healthy in the periods ahead reflecting the capital program for County public schools. A few of the major AAR projects approved in the third quarter 2000 included:

Value	Facility	Area
$8.0 million	Loyola High School alterations	Towson
4.5 million	St. Paul's school alterations	Chestnut Ridge
3.0 million	Sam's Club alterations	Security
3.5 million	County Public School alterations	North Point
1.5 million	County Public School alterations	Middle River
1.2 million	St. James Church alterations	Pikesville

The total value of all construction permits issued in Baltimore County in the third quarter of 2000 was $172.3 million, down slightly from the comparable 1999 period, but off by 12.3% from the very strong comparable 1998 period (Figure 8). While the total construction market in the County may be slowing somewhat after several years of impressive strength, it is too early to predict whether the market is simply taking a breather (to allow absorption of the new capacity put in place over the last several years), or if this is the beginning of a broad-based slowdown in a maturing market which will require close observation.

FIGURE 8: BALTIMORE COUNTY CONSTRUCTION PERMITS: Q3





Interest rates have been declining and are currently near early 1999 levels. The the federal funds rate was lowered by an additional 50 basis points to 5.0% on March 20 by the Federal Reserve's Federal Open Market Committee (FOMC) in an attempt to stimulate the sluggish economy. This represents the third 50 basis point cut in the federal funds rate in 2001 by the FOMC and brings the rate down to where it stood in mid-1999 when the FOMC started to increase interest rates. Monetary policy operates with a lag and this lag time is variable, with the magnitude of the impact on the economy being uncertain. The FOMC, in an attempt to slow the economy's growth rate in 1999, increased the federal funds rate six times from mid-1999 through mid-2000. Those interest rate hikes were effective in engineering an economic slowdown as growth in the second half of 2000 averaged 1.6% versus 5.2% in the first half. This dramatic slowdown caused the FOMC to abruptly change course in early 2001 and lower interest rates. However, it took approximately one year before the economy felt the impact of higher interest rates and it may take just as long for the economy to respond to lower interest rates.

In addition to trimming the federal funds rate by a full 1.5% in 2001, the FOMC reiterated in March their official bias that "the risks in the economy are weighted mainly toward conditions that may generate economic weakness in the foreseeable future." This leaves the door open to the possibility of another interest rate cut when the FOMC again meets on May 15.

Most economists would agree that the biggest economic risks are weighted toward economic weakness. However, despite data showing a sharply slowing economy and the media's tone suggesting that the economy is slipping into an abyss, a recession may not be imminent. Turning points in the economy, in this case a recession, loosely defined as two consecutive quarterly declines in real output, are difficult to predict. Only 5% of professional economists surveyed by *Blue Chip Economic Indicators* in February expect a recession in the next 12 months compared to 39% of the general public. The consensus growth forecast for 2001, according to *Blue Chip Economic Indicators,* is 2.1%. This compares to a 4.5% average growth rate over the last four years.

Interest Rates

	90-Day Treasury Bills	10-Yr. Treasury Bonds	30-Yr. Conven. Mortgage
1998: Q4	4.37	4.67	6.77
1999: Q1	4.53	4.98	6.88
1999: Q2	4.59	5.54	7.21
1999: Q3	4.79	5.88	7.80
1999: Q4	5.20	6.14	7.83
2000: Q1	5.70	6.48	8.26
2000: Q2	5.89	6.18	8.32
2000: Q3	6.20	5.89	8.03
2000: Q4	6.20	5.57	7.64
March 16, 2001	4.58	4.86	6.96

Source: Federal Reserve Board

The interest rate table on the previous page illustrates the magnitude and composition of recent interest rate changes over the last several years. Short-term 90-Day Treasury Bills in 2000:Q4 averaged 6.20%, unchanged from 2000:Q3 and still nearly two full percentage points above the 1998:Q4 reading. Even with the current sharp drop in interest rates, the benchmark 90-Day Treasury Bill rate on March 16 stood at 4.58%, 162 basis points below the 2000 fourth quarter average and around the levels of the first half of 1999.

The 10-year Treasury Bond in 2000:Q4 averaged 5.57%, down by a little more than a quarter of a percentage point from 2000:Q3 and nearly a full percentage point lower than the 2000:Q1 average. Like the 90-Day Treasury Bill, the 10-year bond rate fell in early 2001. The 10-year bond rate was down 71 basis points from the 2000:Q4 average to March 16, while the 90-Day Treasury Bill rate was down by 162 basis points.

The 30-Year Conventional Mortgage rate, as expected, followed a pattern similar to the 10-year Treasury Bond rate, declining slightly in the final quarter of 2000 and showing a similar decline in the early part of 2001. Overall, while all interest rates have been declining, short- term rates have been dropping faster and are currently lower than long-term interest rates. This interest rate pattern is much healthier than the pattern that prevailed in the second half of 2000 when short-term rates exceeded long-term rates. A "normal yield curve", i.e., where short-term rates are below long-term rates, suggests that the economy's growth prospects are improving.

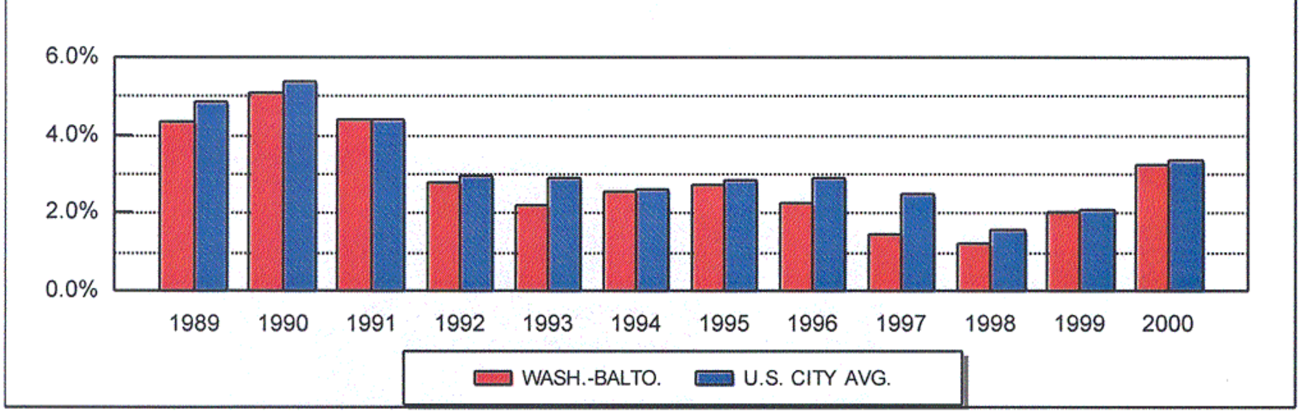
Inflation, as measured by the Consumer Price Index (CPI) for the Washington-Baltimore Consolidated Metropolitan Statistical Area, was 3.3% over the January 2000 to January 2001 period, a little less than the overall U.S. inflation rate of 3.7%. Higher energy, (especially natural gas), transportation, housing and medical care costs are the principal culprits driving recent inflation numbers. The January 2001 year-over-year CPI increase is running well ahead of the comparable 2000 and 1999 periods when the CPI, at the national level, was up 2.7% and 1.6%, respectively. The CPI is currently registering its largest percent change in a decade. However, the U.S. "core" inflation rate (CPI less the more volatile food and energy sectors) is up a more modest 2.6% on a year-over-year basis.

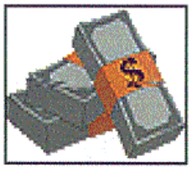
Financial markets respond quickly to inflation. As inflation and inflationary expectations rise, interest rates, especially long term rates, move in tandem as investors attempt to capture stable real returns. However, since long term interest rates have actually been declining since the first of the year, financial markets believe that the worst year-over-year inflation comparisons have already occurred.

While financial markets currently expect inflation to be moderating, reflecting a slowing economy and declining/flat energy prices, future inflation may not be as benign as expected. The January CPI rose by 0.6%, twice as fast as expected, while the January Producer-Price Index (PPI) increased at a 1.1% rate -- compared to the expected 0.3% advance. Positive productivity trends helped contain inflation over the last few years by keeping unit labor costs in check, but with the economy slowing, strong productivity gains will be more difficult to obtain. In fact, in 2000:Q4 nonfarm productivity increased at an annual rate of 2.4%, down from 3.0% and 6.3%, in 2000:Q3 and 2000:Q2, respectively. Thus, while the rate of inflation may be slowing from its year-over-year highs, it may be too early to declare victory and assume inflation will not pose a threat to the recovery. The Federal Reserve indicated their bias towards further monetary easing, but with inflation numbers like those recently reported, the FOMC may be reluctant to take additional aggressive rate-cutting action until better inflation numbers are reported.

The current CPI forecast for the full year 2001 is 2.4%, down from the previous projection of 2.7%, according to The Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters,* taken in February 2001.

FIGURE 10: NATIONAL & REGIONAL INFLATION





Consumer spending, which account for slightly more than two thirds of all economic activity, expanded at a 2.8% real annual rate in the 2000:Q4, the smallest quarterly gain in 2000, and well off the annual 2000 change of 5.0%. Consumers, while less confident than in late 2000, are still spending but at a sharply reduced pace. To put the role of the consumer in proper perspective, total real Gross Domestic Product (GDP), the broadest measure of output, expanded by $24.2 billion in 2000:Q4, while real personal consumption expenditures (PCE) increased by $43.5 billion. Thus, the increase in PCE was greater than the GDP increase because several other GDP categories were negative, notably residential and inventory investment and outlays for equipment and software. Consumer spending is being fueled by strong personal income growth, up 6.3% in 2000, and a high, but erratic level of consumer confidence. The strength in personal income reflects a strong labor market where both employment and wages are growing.

In February, nonfarm payrolls increased by 135,000 jobs, well above expectations, while the January employment gain was revised slightly downward to 224,000 jobs from the initial estimate of 268,000. Manufacturing employment fell by 94,000 in February, continuing the pattern that began in August 2000. Thus, there seems to be a clear dichotomy between manufacturing sector and the balance of the economy. The service sector added 95,000 jobs in February, while the retail trade sector added 37,000 jobs. Perhaps more impressive, the average hourly earnings grew by a strong 0.5%.

The February unemployment rate remained flat at 4.2% but is up from the 4.0% rate recorded in December. Even though the unemployment rate increased by 0.2% since December, the current unemployment rate is only marginally above the 30-year low 3.9% rate set in October 2000.

Consumer Confidence as measured by the Conference Board, the private group that publishes the Index of Consumer Confidence, has been tumbling for months but staged a significant rebound in March, erasing the combined declines recorded in January and February 2001. The index compares results from a base year 1985 = 100. In March, the consumer confidence index jumped to 117.0, the first increase since September and slightly ahead of where it was in January. While cautious consumers spend less than confident ones, the consumers' assessment of the present situation remains fairly strong and consistent with an expanding economy. Additionally, the expectation index, measuring consumers' views six months ahead, showed a sharp 13 point rebound in March but still remains well below late 2000 levels. Overall it appears that confidence, while well below the record levels recorded last summer, is rebounding and remains strong enough to support an expanding economy. However, parts of the economy will continue to be stressed, especially, manufacturing and selected hi-tech sectors. In areas where these sector are dominate parts of the local economy, consumer confidence and spending will remain under pressure. Thus far, Maryland and Baltimore County have managed to remain fairly healthy.

Despite all of the recent media-hype of an economy that is on the verge of recession, the U.S. economy expanded in 2000:Q4, however, the rate of increase was well below what citizens have come to expect. Real Gross Domestic Product (GDP), the broadest measure of U.S. economic output, expanded by only 1.0% in the final quarter of 2000, the slowest rate of growth since 1995:Q2 when the economy expanded by a little under one percent.

The decade of the 1990's was an extraordinary period of U.S. economic growth. From 1992 to 2000, U.S. economic growth averaged 3.8% and in only two years did the economy expand by under three percent (1993 and 1995 when output was up each year by 2.7%). For the last two years growth averaged 4.6%. Thus, when U.S. economic growth slows to a snails pace the environment might feel recession-like even though the economy continues to expand.

GDP growth projections for 2001 are being reduced, but most professional economists expect the U. S. economy to avoid a recession. According to the February 20, 2001 Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters*, the consensus forecast for GDP growth in 2001 is 2.2%, down from the November forecast of 3.3%. GDP growth is projected to be weakest in the first quarter of 2001 (+0.8%) and show stronger advances as the year progresses. A little over one third of the forecasters, however, expect the first quarter of 2001 to be negative. For 2002, the forecasters expect GDP to expand by 3.6%.

PART II

REVENUES

COUNTY REVENUES

County revenues are projected to grow by 3.7% in FY 2001 and by 1.4% in FY 2002. The 3.7% for FY 2001 is the same as in FY 2000 but the FY 2002 estimated growth rate would be the lowest since FY 1992.

FY 2002 revenue growth is projected to slow sharply reflecting the current economic environment in which the aggregate economy, during the first half of 2001, is barely moving forward. While expectations are for a second half growth rebound that may be just wishful thinking. In the current economic environment, FY 2002 revenues are projected to rise by only 1.4% to $1,193.0 million, the smallest growth rate in revenues since the 2.1% revenue contraction in FY 1992. FY 2001 revenues are forecast to advance by 3.7%, more than 2.5 times faster than the rate of growth projected for FY 2002.

As the economy's rate of growth slows, corporate profits come under pressure and the unemployment rate rises (although total employment usually continues to expand). According to the Reserve Bank of Philadelphia's *Survey of Professional Forecasters, in 2001* corporate profits are forecast to drop slightly and the unemployment rate is expected to average 4.4%, compared to 4.0% in 2000. Either of these two events, declining profitability and/or a rising unemployment rate, if large enough, could trigger even slower economic growth or produce an actual recession. Lower profitability could cause a larger than expected drop in capital spending, and a rising unemployment rate could result in a consumer sector in retreat. While a recession is currently not in the forecast, one occurring cannot be ruled out entirely.

Over the last few years, the Maryland and U.S. economies have been more in sync than during the early 1990's, as has the economic activity between the County and the State. With the U.S. economy expected to grow by only a little over 2% in 2001 and just barely missing an official recession, expectations for the County's economy and revenue generation capabilities, while remaining positive, are certainly diminished.

Current Baltimore County economic data are mixed. Employment and jobs in the County are up from prior year levels, but the unemployment rate is also up. Sales of existing single family homes in the final quarter of 2000 were at a fourth quarter record, but inventory levels of homes for sale were well below previous years. New construction activity in 2000:Q3 was down slightly over the comparable 1999 period with residential building activity up a modest 2.0%, new non-residential building activity down 65.6%, and additions, alterations and repairs up a strong 18.1%. In 2000:Q4, the 30-year conventional mortgage rate averaged 7.6% but has recently slipped to slightly above seven percent.

These economic indicators are expected to have the following implications for selected County revenues:

Income taxes: Revenues are projected to grow by 6.5% in FY 2001, but are forecast to be virtually flat in FY 2002. Gains in income tax revenues from rising employment and personal income growth will be offset by lower capital gains revenues. Lower equity markets, such as those experienced in 2000, might initially mean some increased income tax revenues because of higher capital gains. These increased capital gains will help FY 2001 income tax revenue collections but will likely hurt FY 2002 revenues. (County tax revenues from capital gains account for 10%-15% of all income tax revenues and from 3%-5% of total County revenues.)

Property taxes: A weak commercial and non-residential construction market and only moderately rising existing residential property values might indicate a slower growth rate in property tax revenues in FY 2002. Property tax revenues are projected to increase by 3.2% in FY 2002 compared to 3.7% in FY 2001.

Recordation and title transfer taxes: A flat residential resale market suggests County recordation and title transfer taxes will be unchanged in FY 2002 compared to FY 2001.

FY 2001 revenues through January: Revenues through January totaled $793.9 million, 6.3% ahead of last year's pace. However, due to new income tax extension rules, about $10 million in income tax revenues that the County expected in late FY 2000 were actually received from the State in September (FY 2001). This change caused a shortfall in income tax revenues in FY 2000 but higher first quarter FY 2001 revenues by a like amount. Adjusting for the timing of income tax receipts, FY 2001 total revenues through January would be about 5.0% ahead of last year's pace. Thus, actual revenue growth is not as strong as the 6.3% rate implies. Based on current economic indicators, revised revenue estimates of $1,177.1 million for FY 2001 appear reasonable.

Baltimore County Revenues By Selected Categories
Through January 2000 and 2001 (Millions of Dollars)

	FY 2000	FY 2001	% Change	% of Total FY 2001
Property Taxes	$512.1	$526.0	2.7%	66.3%
Income Taxes	128.8	152.8	18.6	19.2
All Other Revenues	105.7	115.1	8.9	14.5
Total Revenues	$746.6	$793.9	6.3%	100.0%

Property tax revenues: Property tax revenues through January totaled $526.0 million, 2.7% ahead of the same period last year. Property tax revenues currently account for two thirds of the total revenues collected so far this fiscal year. Most property tax revenues are accrued in July; however, a small but increasing amount of actual collections occur later in the fiscal year. While this does not impact property tax revenues per se, it does slightly reduce investment income.

Given the overall level of new construction activity, as well as the high level of additions, alterations and repairs, a number of new taxable properties will be coming on stream for the first time in FY 2001. Thus, with current property revenues collected through January plus the new additions, the current property tax revenue estimate of $531 million for FY 2001 appears likely to materialize.

Income tax revenues: Income tax revenues through January totaled $152.8 million, up 18.6% over the same period last fiscal year. However, due to a tax law change, about $10 million in County income tax revenue that was expected in FY 2000 was actually collected in FY 2001. Adjusting for this $10 million, income tax revenues for FY 2001 through January would still be up by a strong 10.9%. However, there is some uncertainty regarding income tax revenues later in FY 2001, reflecting stock market volatility and the timing of realized capital gains. One of the principal forecasters used by the State has indicated that revenues from capital gains will peak in calender year 2000. For the present, however, the record level of County employment combined with a growing labor force suggests that income tax revenues for

FY 2001 are likely to come in near the current estimate of $430 million.

There has been considerable discussion about the importance of capital gains to the County's tax revenue collections. The latest data for county level capital gains is for calender year 1997, and that data show that Baltimore County collected $312.8 million in total income tax revenues, of which about $31 million or 9.9% was from capital gains. Thus, capital gains revenues represented 3.2% of total County FY 1997 revenues of $963.2 million. **Current estimates suggest that capital gains could account for a little over 5% of total County revenues and 15% of income tax revenues in FY 2001.** If revenues from capital gains slow as projected, County income tax and total revenue growth will slow in FY 2002.

Other revenues: A little over halfway through FY 2001, "all other revenues" are running ahead of the forecast. While projections were for basically flat revenues, other revenues (total revenues less property and income tax revenues), are up $9.4 million or 8.9% from the same period last year. Most of the unexpected strength in "other revenues" occurred in the category of recordation and title transfer taxes reflecting a stronger than anticipated housing resale market. While "other revenues" are currently exceeding the forecast, it may still be too early to increase the official estimate due to expected sharply lower economic growth in the first half of 2001.

Surplus: FY 2000 revenues totaled $1,134.7 million, while the revised current FY 2001 General Fund revenue projection is $1,177.1 million. If FY 2001 General Fund revenues and expenditures materialize as projected, $1,177.1 million and $1,220.6 million, respectively, the total surplus at the end of FY 2001 could reach $90.2 million, including $36.6 million in the Revenue Stabilization Reserve Account.

BALTIMORE COUNTY
FISCAL YEAR 2001
MONTHLY AND YEAR-TO-DATE
GENERAL FUND REVENUES

JANUARY, 2001

	A	B	C = B/A	D	E	F = E/D	G	H = E/G	I
	MONTH OF JANUARY			YEAR-TO-DATE				FY 01 Y-T-D	10 YEAR AVG
EVENUE OURCE	FY 2000	FY 2001	% CHANGE	FY 2000	FY 2001	% CHANGE	FY 2001 BUDG. EST.	% OF BUDGET ESTIMATE	Y-T-D % OF TOTAL
ROPERTY TAXES	$1,169,349	$2,586,358	121.2%	$512,073,678	$525,970,267	2.7%	525,416,784	100.1%	99.5%
ICOME TAX	25,065,535	28,275,038	12.8%	128,846,053	152,843,133	18.6%	424,348,381	36.0%	30.4%
ALES-ELECTRICITY	1,044,798	1,128,706	8.0%	8,328,424	8,182,721	-1.7%	16,659,000	49.1%	50.3%
ALES-TELEPHONE	963,716	729,886	-24.3%	4,970,923	3,686,753	-25.8%	11,825,765	31.2%	41.8%
ALES-RECORDATION	0	3,109,475	NA	7,920,918	8,880,314	12.1%	16,875,000	52.6%	47.6%
ALES-TITLE TRANSFER TAX	2,080,757	2,317,130	11.4%	19,584,477	21,057,201	7.5%	33,250,000	63.3%	56.9%
ALES-ADMISSIONS	0	0	NA	2,328,030	2,261,709	-2.8%	7,154,931	31.6%	48.2%
ALES-TRAILER & 911 FEE	18,864	72,459	284.1%	1,818,171	1,417,291	-22.0%	3,802,590	37.3%	45.7%
ALES-MOTEL/HOTEL	397,888	389,404	-2.1%	3,856,750	4,281,387	11.0%	6,324,000	67.7%	61.3%
VESTMENTS	2,982,821	2,008,889	-32.7%	6,959,795	8,281,985	19.0%	14,240,000	58.2%	64.7%
TATE SHARED-HIGHWAY USER	2,684,964	2,399,974	-10.6%	13,244,764	13,649,470	3.1%	33,233,000	41.1%	39.6%
LL OTHER REVENUES	4,280,440	7,844,458	83.3%	36,626,256	43,344,916	18.3%	72,363,567	59.9%	NA
OTAL REVENUES	$40,689,132	$50,861,777	25.0%	$746,558,239	$793,857,147	6.3%	$1,165,493,018	68.1%	66.4%

= COLLECTIONS FOR THE CURRENT MONTH, CY 2000 (FY 2000)
= COLLECTIONS FOR THE CURRENT MONTH, CY 2001 (FY 2001)
= PERCENT CHANGE IN COLLECTIONS, CURRENT MONTH, CY 2001 OVER CURRENT MONTH, CY 2000
= FISCAL YEAR-TO-DATE COLLECTIONS AS OF CURRENT MONTH, CY 2000 (FY 2000)
= FISCAL YEAR-TO-DATE COLLECTIONS AS OF CURRENT MONTH, CY 2001 (FY 2001)
= PERCENT CHANGE IN COLLECTIONS, FY 2001 YEAR-TO-DATE AS OF CURRENT MONTH, CY 2001, OVER FY 2000 YEAR-TO-DATE AS OF CURRENT MONTH, CY 2000
= FY 2001 BUDGET ESTIMATE PER FY 2001 ADOPTED BUDGET
= FY 2001 YEAR-TO-DATE COLLECTIONS AS OF CURRENT MONTH, CY 2001, AS A PERCENT OF FY 2001 ESTIMATE
= TEN YEAR AVERAGE OF YEAR-TO-DATE COLLECTIONS AS OF CURRENT MONTH OF EACH YEAR, AS A PERCENT OF FINAL COLLECTIONS